



*United States Attorney  
Southern District of New York*

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CONTACT: U.S. ATTORNEY'S OFFICE  
HERBERT HADAD, MEGAN GAFFNEY  
HEATHER TASKER  
PUBLIC INFORMATION OFFICE  
(212) 637-2600

**U.S. ENTERS INTO NON-PROSECUTION  
AGREEMENT WITH TOMMY HILFIGER, U.S.A.,  
WHICH WILL FILE AMENDED TAX RETURNS**

DAVID N. KELLEY, the United States Attorney for the Southern District of New York, announced today that the United States Attorney's Office for the Southern District of New York ("the Office"), has entered into a non-prosecution agreement with Tommy Hilfiger U.S.A., Inc. ("THUSA"). In a public announcement dated September 24, 2004, THUSA disclosed that it had received a grand jury subpoena relating to THUSA's buying office commissions ("BOC").

BOC's are paid by THUSA to non-U.S. subsidiaries of Tommy Hilfiger Corporation, Tommy Hilfiger (Far East) Limited ("THFE") and/or Tommy Hilfiger (Eastern Hemisphere) Limited ("THEH"), to provide or otherwise secure certain services, including product development, sourcing, production scheduling and quality control functions for goods that are manufactured and produced overseas. For over a decade, THUSA has paid a 10% BOC for these services. Payment of an inflated BOC to an overseas

subsidiary could result in the avoidance of declaring income that is properly taxable in the United States and, instead, improperly shifting that income to the overseas entity.

Under the terms of the agreement, the Office will not prosecute THUSA for any offenses relating to underpayment of Hong Kong taxes as the result of activities attributed to THFE or THEH, for the years 1990-2004, which may constitute mail fraud or wire fraud on the Hong Kong taxing authorities. In addition, the non-prosecution agreement states that the Office has investigated THUSA for possible criminal activity in connection with the 10% BOC rate paid to THFE and/or THEH for the tax years ending March 31, 1990 through March 31, 2004. The Office concluded that criminal tax charges are not warranted in connection with the 10% BOC rate, and will close that investigation. The Tax Division, Department of Justice, has agreed with this Office's conclusion.

Under additional terms of the non-prosecution agreement, THUSA will file accurate amended tax returns for the fiscal years ending March 31, 2001, 2002, 2003, and 2004, which returns will be calculated based on a BOC rate of 7.5%, and will file said returns with the Internal Revenue Service ("IRS") within 10 business days. In addition, THUSA will pay the taxes due and owing as a result of said amended returns, the interest thereon, and applicable penalties, if any, within 3 business days of the assessment by the IRS of those taxes, interest and penalties. A preliminary estimate of the approximate taxes, which THUSA expects to pay under these terms and other unrelated

adjustments that are also to be reflected in the amended tax returns, include \$15.4 million in additional federal income taxes and \$2.7 million in interest for these four years.

THUSA will also provide to the Hong Kong Inland Revenue Department ("HK IRD") any and all information necessary for the HK IRD to evaluate whether any taxes are due and owing by Tommy Hilfiger (Hong Kong) Limited ("THHK"), THFE, or THEH to the HK IRD, including but not limited to information regarding whether activities attributed to THFE or THEH were actually performed in Hong Kong.

Also under the agreement, THUSA will adopt and implement the recommendations of the Special Committee of the Board of Directors of Tommy Hilfiger Corporation, and will adopt and implement an effective ethics and compliance program as defined in United States Sentencing Guidelines Section 8B2.1. For a period of 3 years, THUSA has agreed, upon request, to provide the Office with information, and will make its personnel available to the Office, for interviews, so that the Office can monitor THUSA's compliance with the agreement. It was further agreed that if after two years, THUSA has fully complied with the agreement, it may request early termination of this provision.

The decision to enter into the non-prosecution agreement with THUSA was based on, among others, the following

factors: THUSA's full cooperation with the Office's investigation, THUSA's willingness to file amended tax returns for a four-year period of time at a revised BOC rate, THUSA's agreement to provide the HK IRD with all information necessary for the HK IRD to evaluate whether any taxes are due and owing to the HK IRD, and THUSA's commitment to adopt and implement remedial measures. Upon learning of the investigation, THUSA undertook a comprehensive internal investigation, which was handled by counsel to the Special Committee of their Board of Directors, which made all pertinent witnesses and documents fully available to the Office and, as described above, will continue to do so on an ongoing basis.

Mr. KELLEY praised the investigative efforts of the Federal Bureau of Investigation and the Internal Revenue Service.

Assistant United States Attorney CATHY SEIBEL and DAN DORSKY are in charge of the investigation.

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